

Attachment J

Attachment J

CalPERS LTC Program
 Analysis of Historical Claims Experience
 Inception Through 12/31/2010

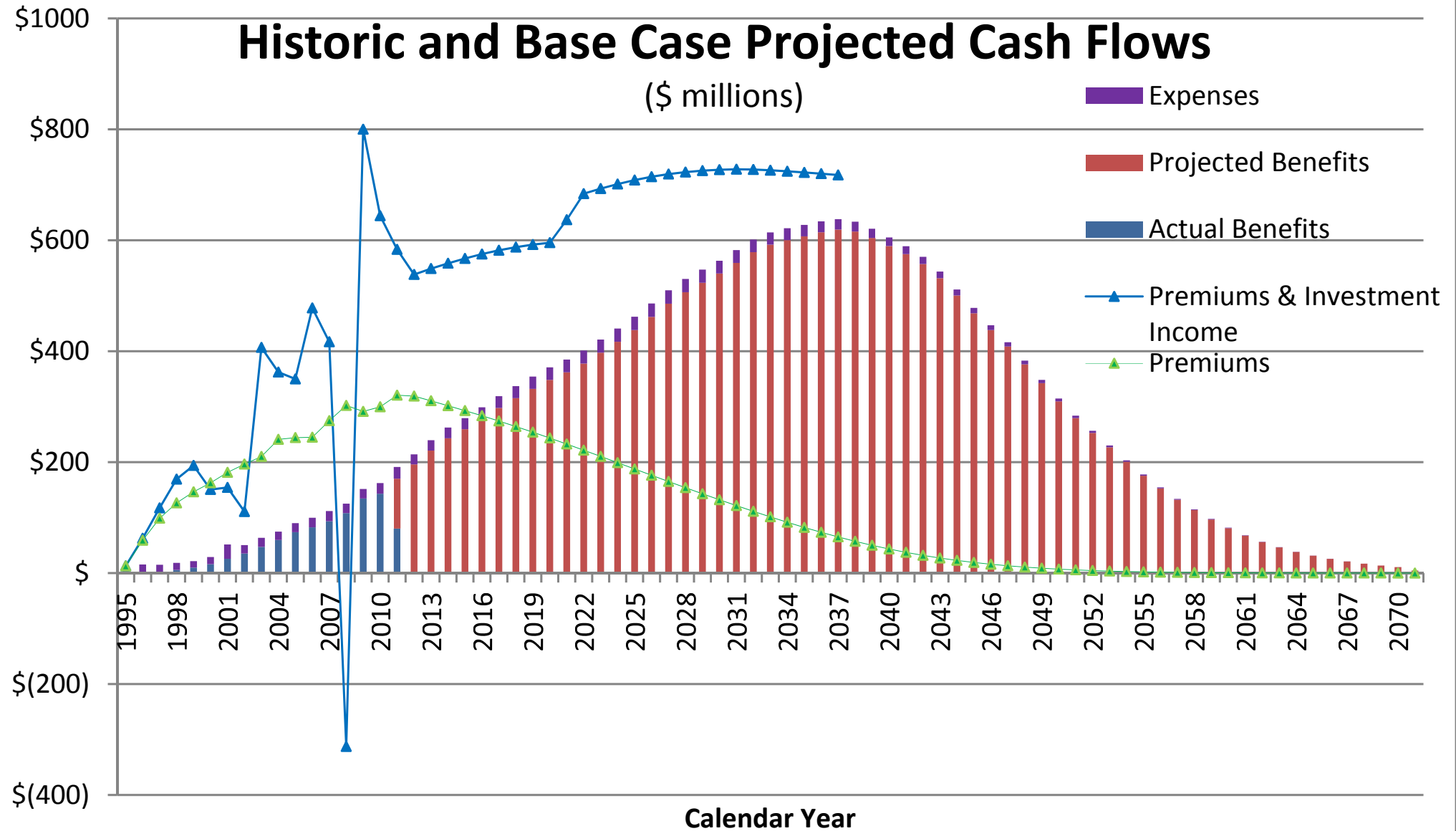
Calendar Year	YE Enrollment	Exposed Life-Years	Net Premiums	As of 6/30/11 # of Incurred Claims	Estimated Incidence	Incidence Trend	# of Open Claims at Each Year-End	# of Open Claims Trend	% of Exposed Life-Years On Claim	# of Closed Claims at Each Year-End	As of 6/30/11 Unadj'd Avg Incurred Claim	Severity Trend	Total Incurred Claims	Incurred Claim Trend	Incurred Loss Ratio	Paid Claims	Paid Claim Trend	Paid Loss Ratio	Expenses	Expense Ratio	Incurred Claim + Expense	Paid Claim + Expense
1995	26,186	9,845	12,740,825	13	0.13%	N/A	13	N/A	0.13%	-	165,702	N/A	2,154,126	N/A	16.91%	38,616	N/A	0.30%	6,341,561	49.77%	66.68%	50.08%
1996	66,354	45,449	58,979,126	92	0.20%	53.30%	88	576.92%	0.19%	17	94,789	-42.80%	8,720,613	304.83%	14.79%	432,348	1019.62%	0.73%	14,961,888	25.37%	40.15%	26.10%
1997	98,549	79,222	98,481,888	183	0.23%	14.12%	210	138.64%	0.27%	78	81,021	-14.53%	14,826,829	70.02%	15.06%	2,202,499	409.43%	2.24%	12,537,201	12.73%	27.79%	14.97%
1998	114,040	103,188	126,034,654	261	0.25%	9.50%	367	74.76%	0.36%	182	85,349	5.34%	22,276,101	50.24%	17.67%	5,188,028	135.55%	4.12%	12,744,996	10.11%	27.79%	14.23%
1999	128,544	119,213	145,838,733	360	0.30%	19.39%	566	54.22%	0.47%	343	93,105	9.09%	33,517,684	50.46%	22.98%	9,253,427	78.36%	6.34%	11,684,674	8.01%	30.99%	14.36%
2000	143,939	133,772	161,617,064	590	0.44%	46.05%	928	63.96%	0.69%	571	93,802	0.75%	55,343,249	65.12%	34.24%	14,974,944	61.83%	9.27%	13,005,669	8.05%	42.29%	17.31%
2001	158,655	148,452	179,364,746	702	0.47%	7.22%	1,251	34.81%	0.84%	950	95,719	2.04%	67,194,958	21.41%	37.46%	23,661,955	58.01%	13.19%	15,266,985	8.51%	45.97%	21.70%
2002	171,879	162,315	195,102,721	826	0.51%	7.61%	1,607	28.46%	0.99%	1,420	92,099	-3.78%	76,073,391	13.21%	38.99%	33,941,329	43.44%	17.40%	15,213,077	7.80%	46.79%	25.19%
2003	175,157	172,449	208,817,380	933	0.54%	6.32%	2,010	25.08%	1.17%	1,950	101,103	9.78%	94,329,290	24.00%	45.17%	45,969,570	35.44%	22.01%	16,258,535	7.79%	52.96%	29.80%
2004	175,105	173,085	238,527,919	1,043	0.60%	11.38%	2,360	17.41%	1.36%	2,643	108,175	6.99%	112,826,288	19.61%	47.30%	57,155,228	24.33%	23.96%	15,130,073	6.34%	53.64%	30.30%
2005	176,314	173,637	243,935,273	1,158	0.67%	10.67%	2,709	14.79%	1.56%	3,452	104,349	-3.54%	120,835,639	7.10%	49.54%	72,082,430	26.12%	29.55%	16,597,546	6.80%	56.34%	36.35%
2006	173,269	173,530	243,693,901	1,253	0.72%	8.27%	3,063	13.07%	1.77%	4,351	110,140	5.55%	138,005,047	14.21%	56.63%	81,334,872	12.84%	33.38%	17,259,584	7.08%	63.71%	40.46%
2007	170,218	171,054	272,909,192	1,380	0.81%	11.73%	3,445	12.47%	2.01%	5,349	117,946	7.09%	162,766,050	17.94%	59.64%	91,698,670	12.74%	33.60%	18,395,176	6.74%	66.38%	40.34%
2008	167,098	167,799	300,422,655	1,401	0.83%	3.49%	3,810	10.60%	2.27%	6,385	133,534	13.22%	187,081,255	14.94%	62.27%	106,396,161	16.03%	35.42%	17,011,710	5.66%	67.94%	41.08%
2009	162,962	164,394	290,775,312	1,585	0.96%	15.48%	4,206	10.39%	2.56%	7,574	147,843	10.72%	234,330,573	25.26%	80.59%	133,861,249	25.81%	46.04%	17,185,158	5.91%	86.50%	51.95%
2010*	156,952	158,982	299,769,180	1,812	1.14%	18.21%	4,712	12.03%	2.96%	8,880	160,860	8.80%	291,478,431	24.39%	97.23%	140,864,090	5.23%	46.99%	21,418,086	7.14%	104.38%	54.14%
Totals			3,077,010,571	13,592							119,317		1,621,759,522		52.71%	819,055,416		26.62%	241,011,919	7.83%	60.54%	34.45%

* - Excludes IBNR claims and amounts

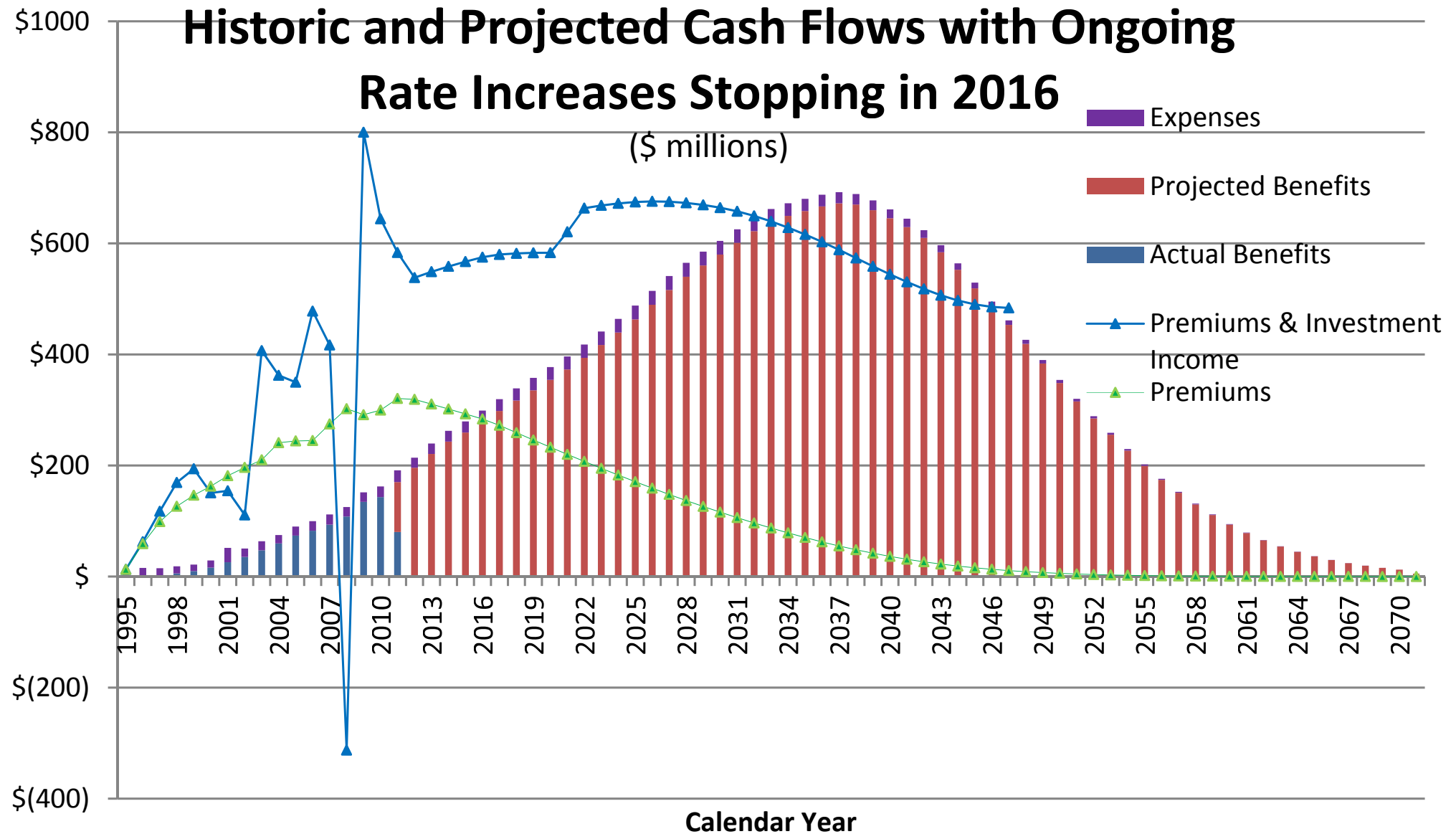
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Historic and Base Case Projected Cash Flows

(\$ millions)



Historic and Projected Cash Flows with Ongoing Rate Increases Stopping in 2016



Attachment L

Attachment L

Glossary of Terms

Anti-selection – Individuals who let their policies lapse because of special events (see “Shock Lapses”) are usually in better health. Policyholders do not normally drop their coverage if they anticipate that they will soon have a claim. As a result of this policyholder decision process, individuals who retain their policies are often, on average, in worse health than those who lapse them. This phenomenon is called Anti-selection.

Base Case – The results of a projection using the “best estimate” assumptions in the LTC valuation. All sensitivity projections are done relative to this Base Case.

Benefit Period - This is the period of time that an insured would receive benefits if the full maximum daily benefit amount is paid each day an insured is on claim. If less than the maximum daily benefit amount is paid, the length of time that a claimant would receive benefits would be greater than this time period.

Claim Costs – Product of the expected claims frequency (incidence) and the expected average claim (severity) based on assumed continuance.

Claim Payment Distributions – Allocates incurred claims to payment durations (monthly for CalPERS valuation).

Comprehensive Plan – A plan that covers home health care (HHC) in addition to care in a nursing home and/or an assisted living facility.

Continuance – Refers to the period of time that a policyholder continues to be on claim after a claim has begun.

Conversion – The voluntary election to switch/reduce coverage, sometimes as a results of specific event such as a premium rate increase.

Credible – A statistical measure of the degree to which data is considered reliable for predictive purposes. Credibility increases as a block of business grows and over time as more data accumulates.

Credibility-Weighted Claim Costs– When actual claim costs from a block of business are not fully credible, data from outside inputs (such as national data sources) would be used to supplement the block’s experience. A percentage of each source of claim costs is used such that the two percentages add to 100 percent. The percentage of actual block experience used would be based on the credibility of that block, and the remaining percentage would be attributed to the outside input. For CalPERS, the percentages are split between experience claim costs and manual claim costs (i.e., LTC insurance industry data).

Deficit – A calculation that determines the degree to which the current fund value is insufficient to pay future benefits expressed as a percentage of the present value of future premiums. This number is an estimate of what one-time rate increase would be needed to

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Glossary of Terms

bring the Program back to the target margin level. If the current fund value is more than enough to pay future benefits, a positive number represents a surplus. In formula terms:

$$\frac{\{\text{Current Fund Balance} + \text{Present Value of Premiums} - \text{Present Value of Benefits and Expenses}\}}{\text{Present Value of Premiums}}$$

Disabled Life Reserve – The value of future claim payments for those members currently on claim.

Discount Rate – An interest rate used to determine present values. For CalPERS, the discount rate is set equal to the expected investment earnings rate.

Duration – The amount of time, typically measured in years, since the issue date of the policy. Duration is sometimes referred to as policy year.

Elimination Period - This is the period of time that the member pays for care before the benefits are paid from insurance proceeds.

Facility-Only Plan – This type of plan pays for care in a nursing home or assisted living facility, but not for care at home or in the community.

Fully-Credible Claim Costs – Experience claim costs from a block of business large enough and/or that has been active long enough such that the claims data is fully credible on its own. In other words, the claims data from the block is used without outside data input (such as from LTC insurance industry data sources).

Funded Ratio - Method of expressing the current financial status of the Program, which is consistent with the CalPERS pension and health plan financial status measurements. In general, the funded ratio is the assets divided by the accrued liability, or reserves. For long-term care insurance, the accrued liability is equal to the present value of future benefits and expenses less the present value of member premiums. This definition is consistent with a statutory gross premium valuation reserve for LTC insurance. In this context, a breakeven position is a ratio of 100%. In formula terms:

Fund Balance

$$\frac{\{\text{Present Value of Benefits and Expenses} - \text{Present Value of Premiums}\}}{\text{Present Value of Premiums}}$$

Gross-Up Factors – When reviewing claims experience, the incidence of claims from early durations tend to be lower than later durations for similar attained ages, which is a result of the underwriting process. These lower claims in early durations are estimated utilizing assumed Selection Factors. For claim cost development, early claims are adjusted by the inverse of these factors, i.e. Gross-Up Factors, to put them at estimated ultimate levels. The purpose of doing so is to express all claims on a consistent basis for evaluation purposes, which allows for the combination of results at various durations.

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Incidence - The number of policyholders that start a claim as a percentage of policyholders that could start a claim over a specified time period (i.e., frequency of claim).

Incurred Claims – Incurred claims are made up of paid claims plus a reserve representing the assumed continuance of claims on known claimants which have yet to be paid as well as claims that have begun on unknown claimants but have not yet been reported. The amount of the latter unpaid claims is referred to as the IBNR (Incurred But Not Reported) Reserve.

Inflation Coverage – An optional feature that increases the amount of available benefits over time in order to protect a policyholder against rising health care costs. The CalPERS inflation coverage feature increases the amount of benefits by 5% per year. This compounding of available benefits in combination with the higher than expected (i.e., priced for) persistency is one of the primary causes of Program deficits.

Interpolation – A process used to estimate an intermediate value when the surrounding values are known.

LTC1, LTC2, LTC3 - Three different long-term care insurance plans sold to CalPERS members. Main differences between the plans are the percents of daily benefit for the Home Health Care (HHC) and Assisted Living Facility (ALF) care that are available at the time of claim in comparison to the Nursing Home (NH) coverage for comprehensive policies. A summary of those benefits and the initial issue year is shown below.

LTC1 (1995) – NH (100%) / ALF (50%) / 50% HHC

LTC2 (2003) – NH (100%) / ALF (70%) / 50% HHC

LTC3 (2005) – NH (100%) / ALF (70%) / 70% HHC

Model – An actuarial tool used to project future cash flows including premiums, claims, investment returns, and expenses.

Morbidity – The overall term for the various assumptions underlying the expected/projected claims of a block of business.

Mortality - The rate of incidence of death.

Partnership Plan - A Partnership Program is a collaboration or “partnership” between state government, insurance companies, and state residents who buy long-term care Partnership policies. The purpose of the Partnership program is to encourage individuals to purchase LTC coverage and save the state money by increasing private funding of LTC services and thereby reducing Medicaid payments for LTC. The advantage of the partnership plan for a member is that once his/her insurance coverage is exhausted, his/her assets in an amount equal to the amount of insurance coverage used is protected when qualifying for Medicaid payments for LTC.

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Persistency – The number of policyholders that remain active relative to the total number that started from one time period to another. Historically, LTC persistency has been higher than what was originally expected for CalPERS and the LTC industry as a whole. Because of the stronger than expected persistency, more members are ultimately expected to submit claims than were originally priced for, which puts additional financial strain on a LTC program.

Present value – A calculation that expresses future cash flows in a current cash equivalent amount based on assumed future interest rates (the Discount Rate).

Return of Premium or ROP – Returns some or all of a member's premiums less any benefits paid to the spouse or estate if the member dies before age 75. This is a built-in option for some of CalPERS plans.

Selection Factors – Factors used to adjust attained age or ultimate claim costs to levels reflecting recent underwriting/issue, therefore reducing (in general) claim costs associated with those policies. Different selection factors are also used for the mortality assumption.

Seriatim Basis – Using policy-by-policy data in its full detail without any initial grouping or summing.

Shock Lapses – An insurance phenomenon where individuals allow their policies to lapse/terminate at a higher rate than usual due to a specific event such as a premium rate increase.

Terminations – The policies that are no longer active due to death, voluntary lapse, or any other reason.

Ultimate Claim Costs (Factors) – Also referred to as attained-age claim costs; it represents the claim costs after underwriting selection wears off.

Underwriting Selection Wear-off – Refers to the time period after which underwriting is assumed to no longer have an impact on claim levels. Selection Factors no longer increase and stay level for all future durations starting at this point.

Underwriting Type – Underwriting is the process of evaluating and selecting risks to be insured. Three types of underwriting were utilized at various times by CalPERS:

MGI - Modified Guaranteed Issue; limited underwriting for younger applicants actively at work.

SF – Short Form; simplified application process with limited medical evaluation for younger applicants.

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LF – Long Form; considered “full underwriting” due to the comprehensive nature of medical questions asked and the associated underwriting process.

Currently, CalPERS only uses the long form of application for underwriting and has done so since 2002.

Voluntary Lapsation – When a policyholder chooses to terminate his/her policy of his/her own volition - not due to death or other limitation on renewing contained within the policy.

Waiver of Premium or WOP – A benefit provision in a policy that allows the insured to stop making premium payments during the time when they meet specified disabling conditions such as being eligible to be on LTC claim.